

COMMITTEE ON FINANCE
NEWS RELEASE



Max Baucus, Chairman
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Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) issued the following statement today regarding a pending amendment to strike an airline pension provision from the FAA reauthorization bill currently before the Senate. The Senate Finance Committee has included the pension provision in the tax title (Section 808) of the bill to protect airline workers' pensions and taxpayers alike.

"I oppose the Durbin amendment to strike the airline pension provision from the underlying substitute amendment. And let me tell you why.

"I oppose the amendment because it would undermine the pension plans for the affected workers. I oppose the amendment because it would expose taxpayers to the prospect of a bigger government bailout of failed airline pension plans in the future. I oppose the amendment because it would treat some airlines unfairly when compared to others. And I oppose the amendment because it would circumvent the committee process.

"Let me explain the Finance Committee provision in the underlying substitute amendment. Let me explain its history and its purpose. This is the provision that the pending amendment seeks to strike.

"Most commercial airlines in America have defined-benefit pension plans. Over the past few years, in connection with bankruptcy reorganizations, some of these airlines have frozen their plans.

"When an employer freezes its defined-benefit pension plan, the affected employees cannot earn more toward their retirement benefits. The amount that employees were entitled to at the time the plan was frozen is the maximum amount that the employees can receive at retirement.

"In 2006, we passed a major reform of the pension law, the Pension Protection Act of 2006. In that law, Congress gave pension relief to all the commercial airlines. The law permits those airlines choosing not to freeze their defined benefit plans to pay off their pension liabilities over 10 years. And the law permits those airlines to use an interest rate of six percent to calculate how much the assets in their pension plans are expected to earn in the future.

"It's tricky, but here's how that interest rate works: The higher the assumed interest rate, the less that a company has to contribute. That's because a higher earnings rate will generate more earnings on the assets over the years. The more that the assets in a plan earn, the less that the employer has to contribute to deliver the promised benefits.

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“Then the 2007 supplemental appropriations bill changed the rules in the middle of the game. The 2007 ‘supp’ changed that percentage for employers that did not freeze their plans from six percent to 8.25 percent. The supplemental did that without any consideration by either the Finance Committee or the HELP Committee, the two committees with jurisdiction over pensions.

“As a result, the affected airlines are now permitted to reduce their contribution to their employees’ pension plans. Some don’t have to make any contributions at all for several years. That means that these pension plans will be less well-funded than they would have been before the law was changed.

“The less that a pension plan is funded, the greater is the risk that the employees will not get everything that was promised to them. And the less that a pension plan is funded, the greater is the risk that the Pension Benefit Guaranty Corporation will have to pick up the tab. PBGC is the federal insurer of pension plans. And in the end, we all know that it’s the taxpayer who could be left holding the bag.

“Section 808 of the Finance Committee provisions in the underlying substitute amendment would fix this. It does so in something of a compromise.

“The Finance Committee provisions would preserve the 8.25 percent interest rate that the 2007 supplemental appropriations bill enacted. The only change that the Finance Committee provisions would make would be to provide a condition for using the 8.25 percent interest rate. In order to use that more-lenient interest rate, the company would have to make contributions to cover pension benefits that accrue during the current year.

“That simple condition would help to level the playing field. It would put the affected airlines in the same situation as other airlines that froze their pension plans. The airlines that froze their defined benefit pension plans now support 401(k) arrangements. And those 401(k) plans require contributions from the airline each year.

“That condition would increase the chances that the pension plans involved could actually pay the benefits that they promise.

“The Finance Committee provision does not prohibit the commercial airlines from using the more favorable 8.25 percent interest rate. It merely requires the airlines to keep up with the additional liabilities that they incur when their employees earn more pension benefits. That’s what the Durbin amendment would strike.

“I urge my Colleagues to join me in opposing the Durbin amendment. Vote against it to protect the pension plans for the affected workers. Vote against it to preserve a level playing field among the airlines. And vote against it to protect taxpayers from a bigger bailout of failed airline pension plans.”

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